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C O N F I D E N T I A L SECTION 01 OF 03 ABUJA 001624

SIPDIS

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TAGS: [EPET](#) [ELAB](#) [ECON](#) [NI](#)

SUBJECT: NIGERIA: MEETING WITH SPECIAL ADVISOR FOR
PETROLEUM RILWANU LUKMAN--DOWNSTREAM DEREGULATION STILL ON
TRACK; REFINERY REHABILITATION MISHANDLED

REF: A. ABUJA 1530

[B](#). ABUJA 742

[C](#). LAGOS 1077

[1](#). Classified by Ambassador Howard Jeter for reasons 1.5
(B) and (D).

[2](#). (C) Summary: On June 22 Ambassador Jeter, DOE Energy Advisor Brodman, and Econoff Flook (notetaker) met in Abuja with Special Advisor to the President for Petroleum Affairs and Energy, Dr. Rilwanu Lukman. During the meeting, Dr. Lukman indicated that the GON has no choice but to proceed with fuel price deregulation as planned. Public sensitivity to deregulation makes this an explosive political issue as Nigeria gears up for the 2003 Presidential elections. In addition, Lukman revealed that the turn-around maintenance (TAM) contracts for Nigeria's refineries have been badly mishandled, and as a result Nigeria's four refineries remain in a dismal state. DOE Energy Advisor Brodman described and again offered USG technical assistance in the areas of deregulation, pipeline security, and safety, an energy assistance program funded through prior year Economic Support Funds (ESF). Dr. Lukman welcomed this offer and agreed to follow-up with his staff. Other issues discussed included upstream exploration and production developments (Ref A) and climate change (Septel). End Summary.

GON Plans on Deregulation

[3](#). (SBU) During the hour and 30 minute meeting, Ambassador Jeter asked if the GON intended to proceed with petroleum deregulation. Many observers believe that President Obasanjo can ill afford to implement this controversial policy given the sustained public protest following the GON's previous announcement to do so (Reftel B provides a detailed analysis of deregulation). Some political analysts, as mentioned in Reftel B, argue that Obasanjo would sacrifice his future political ambitions, if he implements deregulation while Nigeria begins to focus on the 2003 elections. Energy sector insiders predict that the GON will continue to press for price deregulation, but that actual implementation will be delayed until after the 2003 presidential elections. Some question if the GON has made a final decision on an implementation time frame.

[4](#). (SBU) Dr. Lukman confirmed that the GON is proceeding with deregulation "as planned". He said that the GON has no choice but to do so. (Comment: This response is an about-face from the deregulation discussion that DOE Energy Advisor had with Dr. Lukman in August 1999, when Lukman refused to take a firm position on deregulation. End Comment.) Lukman noted that Special Assistant to the President for Petroleum Matters, Engineer Funsho Kupolokun, and Minister for National Orientation and Information, Professor Jerry Gana have been tasked by President Obasanjo to gain public support for deregulation. Kupolokun is engaged in a state-by-state lobbying campaign. The apparent strategy is to bring as many state governors and political leaders into the pro-deregulation fold as possible; then utilize these allies to educate the masses on the benefits of deregulation.

5.(C) In discussing labor's sustained resistance to deregulation, Ambassador Jeter commented that he met the National Labor Congress (NLC) leader, Mr. Adams Oshiomhole, several months ago in Lagos (Reftel C).

(Comment: Oshiomhole is a vocal opponent of deregulation, and the impact of NLC labor strikes on the economy provides the NLC considerable influence over this issue. End Comment.) The Ambassador recalled that during that discussion, the NLC President indicated that the NLC was in fact willing to cooperate with the GON on deregulation. Dr. Lukman responded that the NLC has not been cooperative, and the NLC leadership is beholden to the masses. Lukman went on to opine that "Adams Oshiomhole is just a little too bright," implying that Oshiomhole changes his tune depending upon the audience. Dr. Lukman stated that the message the Obasanjo Administration wants to get across to the NLC, and to the public at large, is that the GON is spending massively on petroleum subsidies, and this money could be put to better use in areas such as health care, education, and business development, all "democracy dividends" that the public is clamouring for.

16. (C) Ambassador Jeter shared with Lukman a proposal where the USG may be able to assist the GON with deregulation efforts. One aspect of this proposal could be targeted specifically at the NLC and other labor organizations. Another program could focus on political groups and leaders. On the labor side, all parties agree that a confrontation between labor and the GON would be counter-productive. The proposal Ambassador Jeter described would educate labor leaders on the positive aspects of deregulation, and its long-term benefits for Nigeria. Such a program would link Nigerian labor leaders with counterparts in countries where petroleum deregulation efforts have worked. A similar program could be designed for political leaders and parties. Both programs would bring foreign experts to Nigeria to speak about the benefits of price deregulation. Another possibility is to sponsor Nigerian official travel to countries where deregulation has been successful. The Ambassador suggested that this type of assistance may require a "silent partner" relationship, given the public sensitivity to deregulation. Lukman welcomed this idea and thought that our interest and low-key assistance might help.

Refineries Remain in Dismal Condition

17. (SBU) Also raised during the discussion was the condition of Nigeria's four refineries. Ambassador Jeter remembered that hundreds of millions of dollars had been set-aside during the interim Abubaker Administration to "fix" the refineries, but it appeared that very little had been done. Dr. Lukman was very frank in his condemnation of the ongoing turn-around maintenance contracts. He said that these deals have been badly mishandled, and as a result there has been little improvement in the refineries' production capacity. In his view, the solution is to allow present TAM contractors to complete projects, even if badly, and then move to sign new contracts with other firms. He opined that once the GON officials who oversaw the present TAM contracts "are out of the way," (implying that they would be fired) new contracts would be awarded to firms more reliable and competent to complete the task at hand.

Pipeline Security and Safety

18. (C) Another USG technical assistance offer discussed was a pipeline security and safety program. DOE Energy Advisor Brodman described a USG study which evaluated how different countries around the world have addressed pipeline security and safety. Using this study, and the successful examples of other countries, a program could be designed by the U.S Department of Energy and the Department of Transportation. This assistance would

look at ways to address Nigeria's ongoing pipeline security and safety problems. Program possibilities include a "needs assessment" and various training opportunities. Again, Lukman welcomed the offer of assistance both in the areas of deregulation and pipeline security and safety. It was reiterated to Dr. Lukman that given the sensitivity of these issues, it would be best not to publicize the U.S. role.

9. (SBU) Note: The GON has continually battled the problem of pipeline sabotage. This practice targets all types of pipelines. "Product" pipelines, which transport gasoline and other petroleum products, are often tapped and refined products are siphoned off. This activity occurs at all levels, from organized criminal gangs with tanker trucks, down to the local villager with a plastic bucket. Other types of pipelines, including crude oil pipelines, are targeted for various other reasons including theft of crude and sabotage. The end result of these practices is a heavy loss of lives, environmental degradation, and supply disruptions.

10. (SBU) Comment: Nigeria is a tale of paradoxes. On the one hand the country has abundant hydrocarbon reserves, both in crude oil (25 billion barrels) and also natural gas (159 trillion cubic feet). Unfortunately, ongoing upstream prospects and excitement do not transcend to the downstream side of the industry where domestic refining, distribution, and regulatory systems are fiascos. Dr. Lukman confirmed what many industry insiders have reported: Nigeria's refineries remain in dismal condition, official refinery production figures are often inaccurate, and frequent GON statements that all refineries are working near "full capacity" are plainly misleading.

11. (SBU) Comment Cont. The good news is that the Obasanjo Administration appears intent on implementing fuel price deregulation. This policy shift, if implemented, should have a profoundly positive impact on the Nigerian economy. In Lukman's words it will free up petroleum subsidies to be put to better use elsewhere. As for cross-border smuggling; "if we charge an appropriate price they (Benin and Niger) can take as much as they want." Press reports indicate that domestic gasoline consumption has gone up from 12 million litres per day in 1999 to the present level of 25 million litres per day. Dr. Lukman indicated that these figures are inaccurate. However, in our view these numbers do give some indication of the phenomenal growth in demand and how, via a GON fuel price subsidy, a great number of petroleum smugglers are growing rich, either by supplying the domestic "black market" or through cross-border smuggling.

Jeter